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The Quest for Net Profit

By Gordon H. Bell

A long time ago — around 1995 in Internet time — company worth was based on profit. Today, as people confuse the virtual marketplace for virtual reality, companies are judged on hype. The old rules no longer apply — or do they?

>> Blunder #1: Build it and they will come

You start a Web site, earfloss.com, and get thousands of hits a day. Does that mean it's a viable company? If no one would buy your product in the brick-and-mortar marketplace, why would the same people buy it in cyberspace? It just doesn't happen.

>> Blunder #2: Give it away and they will stay

Business is a partnership with the customer. When you offer something they are willing to pay for, then a bond is created. When customers invest nothing — except for a few moments away from must-see TV — do you really gain permanent market share you can bank on? It's doubtful.

>> In search of Net profit

If you really want to sell stuff online, you need to find the particular words, pictures, products and offers that people will pay for. Sharpen your market edge to cut through the hype and pique the best customers with an exciting offer.

>> How to prove what sells

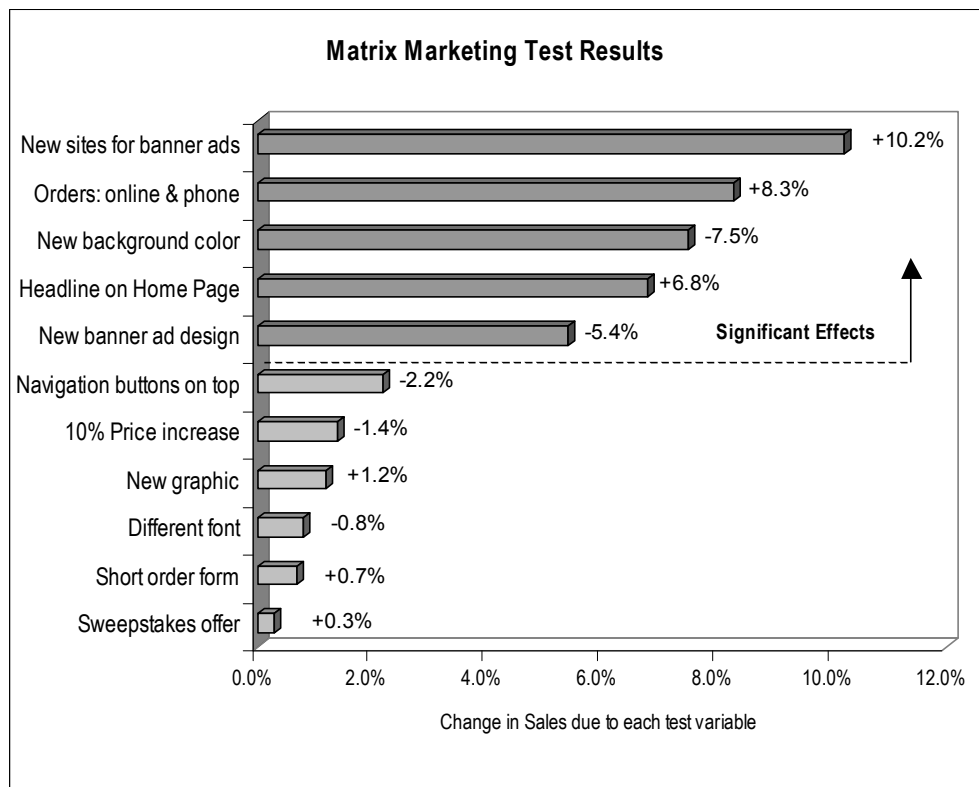
A handful of companies have found a way to do this. Based on techniques gleaned from dusty academic tomes, the "matrix marketing" technique blends marketing creativity, scientific precision, and simplified multivariable test methods. This strategy helps you identify

a multitude of Web site variables that may impact sales, try many new ideas at once, and prove what sells on the Web. If you haven't been doing this, you're selling Space Age technology with Stone Age marketing.

>> The "matrix marketing" strategy

Let's say you brainstorm 11 new ideas to increase unit sales — for example, switching to a sans serif font, different background color, short order form, new graphics, or changing the location of banner ads. Now, if you want to learn about each of these variables, you can:

- (1) Try one at a time,
- (2) Toss all together into one new Web site design and hope things improve,
- (3) Try all 2^{11} possible combinations, or
- (4) In the same time it takes to test one idea alone, you can use a "matrix" to rapidly test all ideas at once.



The matrix lets you make lots of changes to your website, yet in a very structured way, so you can separate out the precise impact of each variable. Plus you can look at interactions among variables. Following the matrix, you create different versions, or "recipes," of your Web site. With 11 ideas you need only 12 recipes; with 15 ideas, you would need 16 recipes, and so on. You can often run all recipes simultaneously, completely transparent to visitors.

You create, test, and upload some new files and folders to the server. The server is programmed to send visitors at random to one of the twelve recipes. All visitors click on the same URL, but each is sent to a unique Web site as defined by the matrix. Within days you often have enough data to analyze results.

>> Prove what sells and quantify the impact

Once the test results are summarized in a chart, identify a "line of significance" — variables above the line is significant; others are not proven important. A positive effect means the new idea helps; a negative effect means the old way is better.

Working off the accompanying chart: To increase sales, you would switch advertising to the new sites, add a phone number, and use a headline. These three changes alone will increase sales about 25.3%. You would avoid switching to the new page background or banner ad. Unwittingly making these changes would drop sales almost 13%. The ideas that have no impact are valuable as well. Higher prices will increase income and the long order form will provide more customer information, both without hurting sales.

>> Find real profit in the virtual world — with matrix marketing

Avoid the blunders of virtual reality. Follow the herd and you'll get caught in the Net with other doomed companies. But if you target your customers with precision, test lots of new ideas and prove what sells, you can gallop away in glory.

Gordon H. Bell is principal of LucidView, Knoxville, TN, a consulting firm specializing in marketing science and strategy, with expertise in scientific "matrix" testing. You can reach him at gbell@lucidview.com.

